



USFRCS MEMORANDUM NO. 77

TO: Arizona Charter School Administrators;
Administrators of School Districts Sponsoring Charter Schools

FROM: Magdalene D. Haggerty, Office of the Auditor General
Vicki G. Salazar, Arizona Department of Education (ADE)

DATE: August 29, 2008

SUBJECT: Fiscal Year 2008 Annual Financial Report and reporting forms for Current Expenses and the Classroom Site Project (Supersedes USFRCS Memorandum No. 71)

Arizona Revised Statutes (A.R.S.) §§15-183(E)(6) and 15-904 require schools to prepare and submit an annual financial report (AFR), in electronic format, by October 15. A.R.S. §15-904(A) requires the Auditor General in conjunction with ADE to prescribe the AFR format to be used by charter schools. The Auditor General and ADE developed the AFR format in Excel, to incorporate the information schools are statutorily required to include in their AFR. This format will assist schools in complying with AFR preparation and submission requirements. ADE will only accept FY 2008 AFR forms submitted electronically using the Excel forms with the 8/08 revision date. Schools may download a copy of the Excel forms from the Auditor General's Web site at www.azauditor.gov/forms_charter.htm or ADE's Web site at www.azed.gov/schoolfinance/Forms/Budgets.

Laws 2008, Chapter 206, §1 and Chapter 287, §9 eliminated the requirement for charter schools to include school-by-school expenses for the Schoolwide Project and for federal and state projects on the AFR. Accordingly, the Charter School School-By-School Expenses form is no longer included with the AFR.

A.R.S. §15-746(A)(4) requires charter schools to report current expenses for classroom supplies, classroom instruction excluding classroom supplies, administration, support services-students, and all other support services and operations. The current expenses by school should include an allocation of school-wide expenses. The report form, Charter School Current Expenses on a School-by-School Basis for FY 2008, is not part of the AFR, as prescribed by A.R.S. §15-904, but has been included and charter schools should submit it with the AFR, as it is required to be filed with ADE by November 1.

A.R.S. §15-977(J) requires charter schools to report expenses from the Classroom Site Project by campus and prepare a narrative summary of results of Classroom Site Project usage at the school level. These two report forms, the Classroom Site Project Expenses by Campus and Narrative Results Summary, are not part of the AFR, as prescribed by A.R.S. §15-904, but have been included and schools should submit them with the AFR, as they are required to be filed with ADE by November 15.

Schools exempted from all or part of the *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS) must still file an AFR in the prescribed format.

Charter sponsors will be notified of all charter schools which operated in FY 2008 and did not submit an AFR for FY 2008 by October 15, 2008. The sponsor may request that ADE withhold up to 10% of the school's monthly apportionment of state aid pursuant to A.R.S. §15-185(H).

Charter schools sponsored by school district governing boards must complete a charter school AFR in conjunction with the sponsoring district. A school district administrator must approve and sign each charter school AFR.

The completed forms must be uploaded by October 15, 2008, via the Common Logon on ADE's Web site at www.azed.gov/commonlogon. For password information or help, please contact ADE's Support Center at (602) 542-7378 [outside the Phoenix area call, (866) 577-9636], or e-mail at enterprise@azed.gov. Files uploaded to ADE will be posted on ADE's Web site. Schools should include a link on their Web site to the AFR on ADE's site.

GENERAL INFORMATION AND INSTRUCTIONS

The AFR presents condensed financial activity (i.e., beginning and ending balances, revenues and expenses, and budget to actual comparisons of expenses for the fiscal year) of the charter school for comparison purposes. This information assists sponsors, school governing boards, administrators, ADE, legislators, other governmental agencies, and taxpayers in determining whether charter schools are meeting their stewardship responsibilities.

The following instructions are provided only for those line items that need further clarification. The school should report all amounts to the nearest dollar. Information should not be entered in the shaded areas or protected cells. Formulas should not be changed or deleted unless specifically instructed to do so by the Office of the Auditor General or ADE. Changing or deleting formulas will cause files to be rejected when uploading to ADE.

All actual revenues, expenses, and account balances presented on the AFR must agree with the charter school's accounting records as of June 30, 2008. Revenue and expense account codes used in the AFR agree with the USFRCS Chart of Accounts dated 12/06. Expense budget amounts should be taken from the charter school's most recently revised or adopted budget, which has been submitted to ADE, for FY 2008.

Revenues must include cash receipts through June 30, 2008, and accrued revenues received after the end of the fiscal year. Examples of accrued revenues are cost reimbursement and entitlement programs, interest earned on investments, and FY 2008 classroom site project revenues.

Expenses consist of all expenses incurred during the fiscal year, including expenses for goods and services received on or before June 30, 2008, but not paid for by that date. Examples of items requiring such treatment are included in the USFRCS, pages VI-G-10 and 11.

The AFR and Current Expenses and Classroom Site Project reporting forms are in five files.

1. afr08.xls includes the cover page and pages 1 through 9 of the AFR.
2. afr08-food service.xls includes the AFR page for food service information.
3. curexpby school08.xls includes the Current Expenses form.
4. cspschool08.xls includes the Classroom Site Project expense summary.
5. cspsum08.xls includes the Classroom Site Project narrative summary.

USING THE ANNUAL FINANCIAL REPORT

Grid lines have been turned off (Tools/Options/View) in order to make the lines used in the forms easier to see. Users may turn the grid lines back on without affecting the calculations or printing of the spreadsheet.

The charter school name, county, and CTDS number must be entered on the cover page of the AFR, as indicated. The number should not include any slashes, dashes, etc. This information will be automatically transferred to the other sheets in the file.

The spreadsheets will automatically perform mathematical calculations and bring forward certain amounts from one AFR page to another. Therefore, information can and should be entered only in unprotected cells. Users can move from one unprotected cell to another on a sheet by using the Tab key.

ANNUAL FINANCIAL REPORT

The cells in the budget columns on the AFR contain formulas that will bring forward budget amounts from the FY 2008 budget forms (budget08.xls). The budget08.xls file for the most recently revised FY 2008 budget must be saved in the C:\CSFORMS subdirectory. Excel will ask the user to update information when the afr08.xls file is opened.

COVER PAGE

All information on the cover page must be completed/updated when the AFR is printed out for the Governing Board to sign. In addition, charter schools sponsored by school districts must also have a school district administrator sign the cover page.

When the forms are submitted electronically to ADE, the school should record the date in the space provided on the cover page. Two school officials should sign the cover page where indicated and send a copy of the signed cover page to ADE at the following address within 5 days of electronic submission:

ADE, School Finance
1535 West Jefferson, Bin 13
Phoenix, AZ 85007

PAGE 1, REVENUE

Report all revenues received by the school on this page, including federal and state project revenues.

Charter schools sponsored by school district governing boards should report payments received from the sponsoring school district on line 6.

PAGE 2, FEDERAL AND STATE PROJECTS

The total of budget and actual federal and state project expenses (project codes 1100 through 1499 on page 9) should be included on line 37. Schools should not include federal and state project expenses with other schoolwide project expenses on lines 1 through 36. The total of budgeted and actual expenses on line 37 should agree with the total of federal and state project expenses on line 32 of page 9.

PAGES 3 AND 4, CLASSROOM SITE PROJECT EXPENSES

Page 3, Line 13. Total expenses for FY 2008 in the Classroom Site Project 1011—Base Salary cannot exceed 20% of the FY 2008 Classroom Site Fund distribution and any prior year's unexpended balance and interest earnings. Monies in this project can only be used for teacher base salary increases and employment-related expenses.

Page 3, Line 26. Total expenses for FY 2008 in the Classroom Site Project 1012—Performance Pay cannot exceed 40% of the FY 2008 Classroom Site Fund distribution and any prior year's unexpended balance and interest earnings. Monies in this project can only be used for performance-based teacher compensation increases and teacher employment-related expenses.

Page 4, Line 13. Total expenses for FY 2008 in the Classroom Site Project 1013—Other cannot exceed 40% of the FY 2008 Classroom Site Fund distribution and any prior year's unexpended balance and interest earnings. Monies in this project can only be used for the following maintenance and operation purposes: class size reduction, AIMS intervention and dropout prevention programs for instructional purposes (other than athletics) coded to function 1000; teacher compensation increases; teacher development; and teacher liability insurance premiums.

PAGE 5, INSTRUCTIONAL IMPROVEMENT PROJECT (IIP) EXPENSES

Lines 1 and 2. Enter the amount of IIP monies spent on teacher compensation increases and class size reduction. Up to 50% of IIP monies received may be used for teacher compensation increases and class size reduction. Expenses for class size reduction must be appropriate expenses under function 1000—Instruction, excluding athletics.

Lines 3 and 4. Enter the amount of remaining IIP expenses. Remaining IIP monies must be used for the following maintenance and operation purposes: dropout prevention and instructional improvement programs including programs to develop minimum reading skills for students by the end of third grade.

PAGE 6, STRUCTURED ENGLISH IMMERSION PROJECT

The Structured English Immersion Project (Project 1071) accounts for monies received to provide for the incremental cost of instruction to English language learners (ELLs) and must be used to supplement existing programs. As defined in A.R.S. §15-756.01, incremental costs are the costs that are associated with a structured English immersion program pursuant to A.R.S. §15-752 or a program pursuant to A.R.S. §15-753 and that are in addition to the normal costs of conducting programs for English

proficient students. Incremental costs do not include costs that replace the same types of services provided to English proficient students or compensatory instruction.

PAGE 6, COMPENSATORY INSTRUCTION PROJECT

The Compensatory Instruction Project (Project 1072) accounts for monies received from the Compensatory Instruction Fund. These monies must be used for programs in addition to normal classroom instruction that may include individual or small group instruction, extended day classes, summer school, or intersession school. These programs are limited to improving the English proficiency of current ELLs and pupils who were ELLs and who have been reclassified as English proficient within the previous 2 years. Monies must be used to supplement existing programs and not to supplant federal, state, or local monies previously used for compensatory instruction that were budgeted for ELLs as of February 23, 2006.

PAGE 7, SUPPLEMENTARY INFORMATION

Current Assets & Current Liabilities (Section A)

Lines 1 and 2. Enter the beginning balances at July 1, 2007, and the ending balances at June 30, 2008, of current assets and current liabilities.

Current assets are resources that can be readily converted into cash within 1 year, or goods or services expected to be consumed within 1 year (i.e., unrestricted cash, marketable securities, accounts and grants receivable, inventory, or prepaid expenses). Current liabilities are obligations expected to be paid from current assets or transferred to income within 1 year (i.e., accounts payable, current portion of notes or capital leases payable or accrued payroll and related benefits).

Line 3. Enter the difference between total current assets and total current liabilities (line 1 minus line 2).

Audit Services (Section C)

Record amounts expended in FY 2008 for audit services.

Line 1. Enter only the amount expended for audits of non-federal program monies.

Line 2. Enter the amount expended for audits of federal program monies.

Non-federal audit expense incurred in FY 2008 may be included on the budget work sheets for FY 2010 for reimbursement pursuant to A.R.S. §15-914. In order to receive reimbursement in FY 2010, non-federal audit expenses must be included in the FY 2008 AFR.

Capital Acquisitions (Section D)

Enter the total increase in capital assets, by asset classification, recorded in the general ledger and on the capital assets list for the year ended June 30, 2008. These amounts represent only the acquisitions made during the year.

Line 1. Enter the total increase in land and land improvements costing \$5,000 or more.

Line 2. Enter the total increase in site improvements costing \$5,000 or more.

Line 3. Enter the total increase in buildings and building improvements costing \$5,000 or more.

Line 4. Enter the total increase in equipment costing \$5,000 or more and having useful lives of 1 year or more.

Note: If the school's policy is to include land, buildings, and related improvements; site improvements; or equipment costing less than \$5,000 on the capital assets list, these items should also be included.

Line 5. Enter the total cost of construction in progress as of June 30, 2008. This amount is not recorded on the capital assets list until the project is completed. Therefore, it will not appear on the capital assets list as of June 30, 2008.

Do not include payments for capital acquisitions on page 2 of the AFR.

Investment in Capital Assets as of June 30, 2008 (Section E)

Enter the total cost, by asset classification, recorded in the general ledger and on the capital assets list as of June 30, 2008. These amounts represent the ending balances in the capital assets accounts and should not include depreciation.

Line 1. Enter the total cost of all land and land improvements costing \$5,000 or more.

Line 2. Enter the total cost of all site improvements costing \$5,000 or more.

Line 3. Enter the total cost of all buildings and building improvements costing \$5,000 or more.

Line 4. Enter the total cost of all equipment costing \$5,000 or more and having useful lives of 1 year or more.

Note: If the school's policy is to include land, buildings, and related improvements; site improvements; or equipment costing less than \$5,000 on the capital assets list, these items should also be included. The sum of lines 1, 2, 3, and 4 should agree with the amount recorded on the school's capital assets list as of June 30, 2008.

Line 5. Enter the total cost of construction in progress as of June 30, 2008. This amount is not recorded on the capital assets list as of June 30, 2008.

Current Expenses by Category (Section F)

Current expenses required to be reported include expenses from all projects for elementary and secondary education. Current expenses do not include outlays for facilities acquisition and construction, furniture, equipment, technology, vehicles, debt retirement, and expenses for nonpublic school programs (e.g., adult/continuing education, community college education, community services, etc.).

The following table presents the current expenses by account codes that should be included in each of the reporting categories. Do not include expenses coded to Program Codes 700, 800, and 900.

REPORTING CATEGORY	CHART OF ACCOUNTS
Classroom Instruction excluding Classroom Supplies	Function 1000 less Function 1000, Object Code 6600
Classroom Supplies	Function 1000, Object Code 6600
Administration	Functions 2300, 2400, 2500, and 2900
Support Services—Students	Function 2100
All Other Support Services and Operations	Functions 2200, 2600, 2700, 3100, and 3400

A.R.S. §15-746(A)(4) requires charter schools to include the above information in their School Report Cards. In addition to including this information on page 7, the Current Expenses form enclosed with this memorandum should be used to record each school’s detailed current expenses. Expenses recorded at a schoolwide level should be allocated to campuses based on student counts at each campus.

When completed, the file must be uploaded via ADE’s Common Logon, School Finance File Upload (Budget/AFR). Select “Fiscal Year: 2008”, “File Type: Excel(.xls)”, “Type and Version: 2008 Current Expenses—School Level—Actual”, then locate the file to be uploaded. Click “Upload File”. This campus level form is due November 1, 2008.

Schools with only one campus that have completed the corresponding information on the submitted AFR are not required to submit this form.

Supplementary Information (Section G)

Line 6. Enter the total tuition paid out for special education students.

Line 7. Enter all tuition expenses paid to other Arizona schools or districts.

Line 8. Enter expenses for textbooks coded to Function 1000, Object Code 6642.

Teacher Salaries (Section I)

The following table presents the current expenses that should be included in each of the categories for teacher salaries. Report base salaries, overtime, and additional compensation paid to certified and noncertified teachers, certified and noncertified substitute teachers, and contract teachers. Do not include salaries paid to instructional aides or assistants. Report the salaries based on the appropriate program. If a teacher teaches in more than one program, calculate the salary based on the amount of time instructing in each program.

TEACHER SALARIES	CHART OF ACCOUNTS
Line 1—Regular Education	Function 1000; Program 100 and career education programs coded to Program 200; Object Codes 6112, 6113, 6152, 6153, and 6325
Line 2—Special Education	Function 1000; Programs 200 (excluding ELL incremental costs, and compensatory instruction, vocational and technological education, and career education programs) and 300; Object Codes 6112, 6113, 6152, 6153, and 6325
Line 3—Vocational Education	Function 1000; Programs 270 and 540; Object Codes 6112, 6113, 6152, 6153, and 6325

Line 4—Other Programs	Function 1000; Programs 260, 265, and 530; Object Codes 6112, 6113, 6152, 6153, and 6325
Line 5—Cocurricular Activities, Athletics, and Other	Function 1000, Program 600, Object Codes 6112, 6113, 6152, 6153, and 6325

PAGE 8, SUPPLEMENTARY INFORMATION (CONT'D)

Enrollment of Gifted Pupils by Grade (Section A)

Lines 1 through 3. Enter the number of pupils enrolled in each area of identification by grade.

Line 4. Calculate the Total Duplicated Enrollment by adding the number of pupils recorded on lines 1 through 3 for each grade.

Enrollment of Gifted Pupils by Ethnicity (Section B)

Line 6. Calculate the Total Unduplicated Enrollment by counting all pupils only once. The Unduplicated Enrollment (Section B, line 6) cannot be greater than the Duplicated Enrollment (Section A, line 4).

Expenses for Gifted Pupils (Elementary, Secondary, and Total) (Section C)

Enter the actual expenses for all gifted programs for grades K-8, 9-12, and in total. The total expenses for all grades must agree with the actual amount recorded on line 14 of Section D of this page.

Special Education Programs by Type (Section D)

Supporting documentation should be retained for the allocation of expenses to individual special education programs. The total for Special Education Programs by Type should equal the total of lines 27 and 28 on page 2.

PAGE 9, FEDERAL AND STATE PROJECTS

Amounts for indirect costs, expenses, capital acquisitions, and ending balance should agree with the school's completion reports filed with the ADE Grants Management Office. In addition, the total budget and actual expenses on line 32 should agree with the total column for federal and state projects on line 37 of page 2.

FOOD SERVICE PAGE

The food service page has been included as a separate file (afr08-food service.xls). This page should be completed and submitted with the other pages of the AFR. Specific instructions for completing the page can be found in ADE's enclosed *Annual Financial Report, Food Service Instructions*.

CLASSROOM SITE PROJECT REPORTING FORMS

The Classroom Site Project Expenses by Campus and the Narrative Results Summary forms have been included in this memo so schools can meet the requirements of A.R.S. §15-977(J). The total amount reported on the Classroom Site Project Expenses by Campus form should agree to the total expenses

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reported for the Classroom Site Projects on pages 3 and 4 of the AFR. For schools with only one campus, completing pages 3 and 4 of the AFR will satisfy the requirement to report Classroom Site Project expenses by campus.

PRINTING

The AFR has been formatted to print on legal-size paper (8½" x 14") at "Actual Size" (100%). The Classroom Site Project reporting forms and Current Expenses form have been formatted to print on letter-size paper (8½" x 11") at "Actual Size" (100%). Since the minimum margin setting for your printer may differ from what was used to set up these files, a little experimentation may be needed to get each sheet to print on one page. Users should try changing the "scaling" under page setup.

If you have any questions, please call the ADE School Finance Operations Unit at (602) 542-5695, or the Office of the Auditor General, Accounting Services Division at (602) 553-0333. Questions regarding the electronic version should be referred to the Office of the Auditor General. Questions regarding electronic submission of the AFR should be referred to ADE.

MDH/VGS/ms
Enclosures